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SUBJECT: EAST JAVA: Lapindo Mud Volcano Floods Roads and Rail While
President Replaces Mud Managers

Ref. A: Jakarta 00508, Ref. B: Jakarta 00013, Ref. C: 06 Jakarta
13358 notal

¶1. (SBU) SUMMARY: A March 30 dam wall collapse at the source of the PT. Lapindo Brantas (Lapindo) mud volcano flooded East Java's remaining north-south road and railways, causing major transportation disruptions. Local mudflow victims delayed damage control response by preventing heavy equipment moving to the breach. President Yudhoyono (SBY) replaced the National Mud Disaster Management Team (Timnas) with a new permanent body (BPLS) headed by retired Maj. Gen. Sunarso. Local contacts are concerned that Sunarso's close political ties to Bakrie and lack of technical expertise will limit BPLS's effectiveness. Timnas contacts tell us the management of the flooding is in disarray. Business contacts are planning for repeated and extended road and rail closures and are weighing factory closure and relocation options to remove transportation difficulties. Lapindo remains delinquent paying compensation to the 45-50,000 mudflow victims who continue to demonstrate locally in response. A company controlled by Aburizal Bakrie, Coordinating Minister of Social Welfare and controlling owner of Lapindo's managing partner, agreed to buyout PT. Medco Energi's (Medco) minority interest in Lapindo and assumes Medco's mud liabilities, avoiding a potential gross negligence judgment in a New York court. Business contacts hope the BPLS will take strong action to quickly restore transportation corridors. Political and social contacts fear that strong action will cause an emotional response and trigger larger or violent demonstrations. END SUMMARY

Dam Wall Collapse Floods Infrastructure

¶2. (SBU) One of the earthen walls at the mudflow site collapsed March 30, changing the direction of the mudflow from south and east to north and west. The flow change overwhelmed the dam structure abutting the Porong Road and national Surabaya-Malang rail line causing flooding of this critical infrastructure. Five hundred (500) meters of the Porong Road and rail are now flooded to about 1.5 feet. Train service has stopped from Surabaya to southern East Java and rail services in southern East Java remain severely disrupted. Travel to the south by road is beset with long delays. The National Mud Disaster Management Team (Timnas) initially estimated one week to effect dam wall repairs and reopen the road

and rail line. After 13 days, the rail remains closed, only one lane of the road is open to limited traffic and the primary dam wall remains breached.

13. (SBU) Thousands of displaced residents initially prevented equipment and dump trucks filled with earth from arriving to repair the dam wall breaches. They hoped to pressure the GOI to accelerate compensation payments by lengthening the time to reopen the road and rail services. The Sidoarjo Regent Win Hendrarso committed to their compensation demands based on his receiving "instructions from Jakarta" to expand the number of families receiving "cash and carry" compensation from 4,000 to over 13,000. According to a local parliament member, Lapindo is now late on its first compensation payment of approximately \$56 million, which was due March 31 (Ref. B).

SBY Replaces Timnas

14. (SBU) On April 8, Timnas' Presidential authority to deal with the mud expired. President Yudhoyono (SBY), through decree letter 31 2007, created the Sidoarjo Mud Management Agency (BPLS) to replace Timnas and appointed retired Army Maj. General Sunarso, former Military Commander of Central Java, as its chairman and Hadi Prasetyo, a Jakarta-based politician, as its deputy chairman. Presidential Spokesperson Andi Malarangeng announced that BPLS is responsible for managing the mudflow and its containment, relocating affected infrastructure and dealing with the social impact. A 14 member Steering Committee will oversee BPLS operations. Members include: Minister of Public Works (as Chairman), Minister of Social Affairs (as his deputy), Minister of Finance, Minister of Energy and Mineral Resources, Minister of Home Affairs, Minister of Oceans and Fisheries, Minister of Transportation, Chairman of the National Development Planning Board, Chairman of the National Land office,

East Java Governor, East Java Military Commander, East Java Police Chief and the Sidoarjo Regent. Andi Malarangeng also announced that funds for infrastructure relocation and social services would be paid out of GOI 2007 budget, while Lapindo would continue to fund only mudflow control and dam wall construction until a permanent mud management scheme is completed.

15. (SBU) East Java leaders complained about the appointment of Sunarso to head the new body. Upon his retirement in 2006, Sunarso went to work for Aburizal Bakrie, Coordinating Minister of People's Welfare and controlling owner Lapindo's managing partner, as a member of his expert staff. Lapindo was responsible for the drilling operation which caused the well blowout and the subsequent mud volcano. Embassy sources were able to provide little information about Sunarso as he was not considered a significant player in the Indonesian military. Muhammad Mirdasy, secretary of the East Java parliament "Mud Commission" and Porong resident, told reporters he doubted that Sunarso will be an impartial manager of the situation or has the technical expertise to avoid making the same mistakes as Timnas. He also expressed concern that a former military man as leader of BPLS may use authoritarian techniques to implement policy or quell social unrest.

16. (SBU) Contacts within the former Timnas tell us that the transition to the BPLS is not going smoothly. Little progress is being made to repair the main dam wall breach. Local contractors had been performing with limited and delayed payments by Lapindo on the promise by Timnas leaders of future business from the Ministry of Public Works. Those contractors are not convinced the new BPLS will deliver on promises of timely payments and are now beginning to abandon the dam repair project.

Economic Damages Mounting

17. (SBU) Export factories south of the mud are reporting three day travel times and increasing transportation costs for containers to and from the Surabaya port. The recent flooding also closed the recently reopened 28' methane gas line which was rebuilt above ground in the same location adjacent to the source of the mud. Mud levels have risen sufficiently to submerge the new gas line since the dam wall breach. Gas supplies were forced back to a 10" line, reducing electricity generation capacity and closing fertilizer

production once again (Ref. C). Local expert's initial estimates of economic damages caused by the closed road, rail and gas lines are \$50 million per day. If the road and rail closure becomes longer term (3-4 months), local economists predict hundreds of factories will start closing, potentially displacing over 100,000 workers. Timnas estimates it will cost approximately \$360 million and take one year to relocate the infrastructure now impacted by the mud.

18. (SBU) A local business contact who owns three factories producing goods for domestic consumption and employing 5,000 people south of the mud is considering his options. His transportation times and costs have tripled again since the recent flooding, taking a significant bite out of his profit margins. If transportation costs and delays continue to increase they will soon be in a loss situation and will consider shutting down until the situation stabilizes. Other domestic producer contacts have mentioned they are making plans to move factories from south of the mud to other areas of East Java because the transportation problems are likely to be long term. Export manufacturing contacts tell us that their choices are to keep going or close permanently due to the inflexibility of Indonesian labor laws making it difficult and expensive for them to temporarily lay off workers.

No Solutions in Sight

19. (SBU) Prior to April 8, Timnas completed inserting 374 concrete balls into the mudflow source. The original plan called for 16,000 balls to be inserted using a steel structure built over the mud to precisely insert the balls at a cost in excess of \$50 million. The few concrete balls that were inserted used a cable and pulley system at a cost of \$300,000 and have done nothing to reduce the flow rate. The mudflow rate fluctuates but continues to average slightly less

than 1 million barrels per day. The vertical and horizontal subsidence rates are increasing, according to Surabaya Institute of Technology (ITS) scientists monitoring the mud and advising Timnas. The ITS scientists also noted that the composition of the mud is rapidly changing. Instead of 95% fine particles, the mud now contains 70% gravel and sand. There are several plans being tested to divert the mud flow in to the Porong River or build canals to let the mud flow to the sea. The ITS scientists claim that none of these plans are workable now because the mud is too heavy to flow. Their analysis compares the mud to the consistency and properties of wet concrete, hardening as it cools. They admitted that Timnas efforts to control the mud are failing and they have few ideas how to efficiently move the mud away from economically sensitive and densely populated areas.

Limited Political Impacts

110. (SBU) There have been limited political impacts. The plight of the mud victims has not moved other East Javanese to join victim protests of their poor treatment or Lapindo's slow payment of compensation. Residents feel the victims are being greedy by demanding "cash and carry" compensation in excess of the values of their homes. Local politicians and religious leaders are becoming much braver in speaking out against the central government's handling of the mud. There have been recent public statements noting the discrepancies in treatment of the recent Jakarta flooding victims and the Sidoarjo mud victims based on the GOI's rapid \$440 million response to fund recent flood damages in Jakarta and labeling it as discrimination.

Social Impact Localized

111. (SBU) The official number of displaced families is currently just over 13,000 and the total number of people affected is approximately 45-50,000. When the number of affected families officially displaced by the mud was increased from 4,000 to 13,000, the total compensation requirements for Lapindo remained the same. Lapindo is still responsible for paying \$278 million in damages to homeowners who lost homes to the mud. The Porong Market has refilled with refugees, now housing 10-12,000 people. Recent demonstrations have concentrated on forcing the GOI to commit to

expanding the number of families to be covered under the Lapindo compensation scheme (Ref. A). Contacts expect future demonstrations will intensify in an attempt to force actual payment of compensation funds by Lapindo.

Lapindo Partner Getting Out

¶12. (SBU) PT. Medco Energi (Medco), a 32% partner in Lapindo, recently agreed to sell its interest in Lapindo to Bakrie-owned Group Prakarsa (Prakarsa) for \$100. As a part of the transaction, Prakarsa will assume all Medco liabilities associated with Lapindo and the mud and Medco will drop its arbitration case filed in New York claiming gross negligence by PT. Energi Mega Persada (EMP), the managing partner of Lapindo and also controlled by Bakrie, caused the mudflow. Prakarsa's new liabilities will be guaranteed by Minarak Labuan, another company owned by Bakrie reportedly with enough assets to convince the Capital Market Supervisory Agency that this is not another attempt at a shell transaction to limit Lapindo liability for the mud and allow the transaction to close. According to Timnas sources, Medco never contributed to the costs of combating the mud claiming EMP should bear complete responsibility because they did not follow the designed and approved drilling plan for the well, among other mistakes. Hilmi Panigoro, President/Director of Medco and a political adversary of Bakrie, stated, "The deal would provide certainty for the mudflow victims as regards who would take responsibility for the disaster (Note: implying Bakrie and EMP)."

Comment

¶13. (SBU) Our contacts were uniformly disappointed but not surprised that SBY appointed a Bakrie political crony as the leader of the new

mud authority. They fear that his motivation will be to save Bakrie money and further embarrassment rather than moving strongly to deal with this dangerous and growing problem. The appointment of a retired general split our contacts into two camps. Economic and business leaders are hopeful that Sunarso will bring an army construction brigade and a wad of cash to purchase (i.e. commandeer) land to quickly get roads and rail lines moved to a safer location. Social leaders are concerned the BPLS will strong arm locals to sell and ignore the sensitive issue of local land rights. Both political and religious leaders are fearful that any forceful actions by the BPLS to stave off economic disaster will cause mass demonstrations by people protesting the loss of their land and question the former military commander's ability to handle this difficult but delicate situation.

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